International Update
Recent Developments in Foreign Public and Private Pensions

December 2024

Europe

Belgium Set to Implement Old-Age Pension Reforms

On January 1, Belgium's government will implement reforms to the country's public pension system, including introducing a pension bonus for extended work careers, changing minimum pension rules, and capping benefit adjustments for retired civil servants. (The Belgian pension system consists of separate social insurance programs for private-sector employees, self-employed persons, and civil servants.) Belgium's parliament approved the reforms this past April after the governing coalition reached an agreement in July 2023. The reforms are intended to improve the financial sustainability of the pension system and are a condition for Belgium to receive up to €5.3 billion (US$5.6 billion) in grants and loans from the European Union's pandemic recovery fund. However, the European Commission ruled in July that the approved reforms were insufficient and gave Belgium 6 months to make additional changes. (At this point, the government has not enacted any additional changes.) According to Belgium's Study Committee on Aging, the reforms are projected to reduce annual public pension expenditures by 0.3 percent of gross domestic product by 2070.

The key changes made by the reforms—all effective January 1 unless otherwise noted—include:

- *Introducing a pension bonus for extended work careers:* Effective July 1, private-sector employees, self-employed persons, and civil servants who continue to work beyond the earliest date they qualify for an old-age pension will receive a tax-free pension bonus at retirement. (The old-age pension can be claimed at age 60 with 44 years of coverage, age 61 or 62 with 43 years of coverage, age 63 or 64 with 42 years of coverage, or age 65 with at least 1 day [private-sector employees and civil servants] or 1 quarter [self-employed persons] of coverage.) Under transitional rules, the earliest date individuals can claim an old-age pension and receive the bonus is January 1, 2025. The bonus accrues for every day worked past the earliest retirement date, up to 3 years. The final bonus amount depends on several factors, including the number of workdays accrued after the earliest retirement date, whether the continued work was full or part time, and the years of coverage recorded at their earliest retirement date. The bonus can be paid as a lump sum up to €35,347.59 (US$37,334, the default option) or monthly payments up to €146.07 (US$154).
- *Changing minimum pension rules:* Currently, private-sector employees and self-employed persons must have coverage for at least two-thirds of a full career (equivalent to 30 years for most workers) to qualify for a guaranteed minimum pension. By contrast, civil servants qualify for a guaranteed minimum pension if they have reached age 60 and have at least 20 years of coverage. (Special rules apply to workers with careers combining employment, self-employment, or public service.) Under the reforms, individuals must also have at least 20 years (private-sector employees and self-employed persons) or 189 months (civil servants) of effective work to qualify. (The 20 years of effective work must include at least 5,000 days of full-time work or 3,120 days of part-time work for private-sector employees, or at least 64 quarters of work for self-employed persons.) To reduce the negative effects of this new requirement on women, effective work not only includes paid work but certain other activities, including temporary unemployment, maternity and paternity leave, adoption leave, and certain caregiving. The effective work requirement will not apply to individuals born in 1962 or earlier and will be gradually phased in for younger individuals until it becomes fully applicable for those born in 1970 or later. As before, private-sector employees and self-employed persons with at least 45 years of coverage will receive the full minimum pension (currently €1,773.35 [US$1,875] a month for single persons or €2,215.99 [US$2,341] a month for couples) and those with at least 30 years but less than 45 years of coverage will receive a proportionally reduced benefit. The calculation of the minimum pension for civil

servants (currently €1,773.10 [US$1,873] a month for single persons or €2,216.29 [US$2,341] a month for couples) will also not change.

- *Capping benefit adjustments for retired civil servants:* Currently, civil servant pensioners receive special benefit adjustments every 2 years based on changes in civil servant wages in addition to standard cost-of-living adjustments. Under the reforms, the special benefit increases will be limited to 0.3 percent of the total cost of civil servants' old-age and survivor pensions each year. (Excess amounts will not be transferred to subsequent years.)

Belgium's old-age pension system comprises the social insurance pension programs covering private-sector employees, self-employed persons, and civil servants; a social assistance guaranteed income program for elderly persons; various defined benefit and defined contribution occupational pension plans; and voluntary personal pensions. The normal retirement age under the social insurance system is 65 and set to increase to 66 in 2025 and to 67 in 2030. A full social insurance old-age pension is paid to individuals with at least 45 years of coverage and a partial pension is paid to those with less than 45 years of coverage. Belgian residents aged 65 or older may qualify for the social assistance guaranteed income benefit if they have financial resources below certain limits.

Sources: "Gewaarborgd minimumpensioen," Federale Pensioendienst; "Perequatie van de ambtenarenpensioenen," Federale Pensioendienst; "Wanneer heb je recht op een minimumpensioen?" Rijksinstituut voor de Sociale Verzekeringen der Zelfstandige; *Social Security Programs Throughout the World: Europe, 2018*, U.S. Social Security Administration, September 2018; "Belgium Announces Pension Reform Agreement," *International Update*, U.S. Social Security Administration, September 2023; "De stijging van de sociale uitgaven zal hoog zijn tot 2050," Studiecommissie voor de Vergrijzing, July 10, 2024; "Europese Commissie maakt 632 miljoen euro uit relancefonds aan België over," VRT, September 24, 2024; "Wat is de pensioenbonus en hoe bouwt u die op?" Federale Pensioendienst, November 5, 2024.

Asia and the Pacific

India Approves New Public-Sector Pension Program

On August 24, India's government approved the creation of a new pension program—the Unified Pension Scheme (UPS)—for federal government employees and employees of participating state governments. The program will be launched on April 1, 2025, and will provide old-age and survivor pensions with guaranteed minimums and a lump-sum retirement benefit. The UPS is intended to supersede the National Pension System (NPS), which was introduced in 2004 and had 18.9 million participants at the end of October, including 2.7 million federal government employees and 6.8 million state government employees. (Indian citizens aged 18 to 69 who are not government employees can voluntarily join the NPS.) With input from labor unions and other stakeholders, the government has designed the UPS to combine the most attractive features of the defined contribution NPS with those of the defined benefit Old Pension Scheme that preceded the NPS. The government estimates that the UPS will enroll around 2.3 million federal government employees and increase its annual pension expenditures by approximately 62.5 billion rupees (US$739 million).

Although many details of the UPS have not been finalized, its key features include:

- *Covered workers:* The program will cover federal government employees and employees of state governments that choose to participate. (Currently only one state has joined the UPS, but this number is expected to increase. Nearly all of India's 28 states have opted to participate in the NPS.) Enrollment in the UPS will be mandatory for new government hires and optional for government employees already participating in the NPS. If government employees participating in the NPS choose to switch to the UPS, their decisions cannot be reversed.
- *Program financing:* To finance the program, employees will contribute 10 percent of their monthly salaries (basic pay plus dearness allowances) and the government will contribute 18.5 percent of monthly payroll. (Dearness allowances are paid to government employees as a fixed percentage of their basic pay to compensate for inflation. As of July 1, the dearness allowance for federal government employees was 53 percent of their basic pay.) Comparing the UPS to the NPS, the employee contribution rate has not changed, and the government contribution rate has increased 4.5 percentage points from 14 percent. Further increases may be made to the government contribution rate based on actuarial reviews of the program.
- *Old-age pension:* Government employees who retire at the normal retirement age (age 60 for most government employees) and have at least 25 years of service will receive a monthly old-age pension equal to 50 percent of their average monthly basic pay in their last 12 months of employment. The pension

benefit will be proportionally reduced for retirees with 10 to 24 years of service. There is a guaranteed monthly minimum pension of 10,000 rupees (US$118.24) for retirees with at least 10 years of service.

- *Lump-sum retirement benefit:* At retirement, employees will receive a lump-sum benefit in addition to their old-age pension. The benefit will amount to one-tenth of the employee's monthly salary (basic pay plus dearness allowance) for every 6 months of completed service and will not count against the old-age pension amount.
- *Survivor pension:* Upon the death of an insured individual, the surviving family members will receive a survivor pension equal to 60 percent of the deceased's actual or projected old-age pension.
- *Benefit adjustments:* Old-age and survivor pensions will be indexed to inflation based on changes in the All-India Consumer Price Index for Industrial Workers. The inflation-based increases will be paid to pensioners as dearness relief, a top-up benefit similar to the dearness allowances paid to active government employees.

Besides the NPS and UPS, other major components of India's old-age pension system include the Employees' Provident Fund (EPF), the Employees' Pension Scheme (EPS), the Atal Pension Yojana (APY), and a gratuity scheme. The mandatory defined contribution EPF program covers private-sector employees working in firms with at least 20 employees in specific covered industries and certain other employees specified by law. The defined benefit EPS program covers individuals who became members of the EPF on or after November 16, 1995. The APY is a voluntary defined benefit program for low-income individuals, aged 18 to 40, who work in the informal sector and have a savings bank account; it is administered jointly by banks, state-run insurance companies, and the Provident Fund Regulatory and Development Authority. The gratuity scheme covers employees of factories, mines, oil fields, plantations, ports, railways, and businesses with at least 10 employees.

Sources: "India," Gallagher GVISOR Country Manual, February 12, 2024; "Cabinet Approves Unified Pension Scheme," Prime Minister of India, August 24, 2024; "What Is Unified Pension Scheme? Know the Benefits, Eligibility," *Deccan Herald*, August 25, 2024; "How Unified Pension Scheme Marks a Big Shift in Govt's Outlook on Retirement Security," *India Today*, August 29, 2024; "What Is Unified Pension Scheme (UPS): Eligibility, Benefits & Returns," Cleartax, September 17, 2024; "Revision of Rates of Dearness Allowance to Central Government Employees - Effective from 01.07.2024," Indian Department of Expenditure, October 21, 2024; "AUM and Subscriber Base," National Pension System Trust, December 9, 2024.

International

Organisation for Economic Co-operation and Development Releases OECD Pensions Outlook 2024

On December 2, the Organisation for Economic Co-operation and Development (OECD) released *OECD Pensions Outlook 2024*, the seventh edition of its biennial report on major policy issues affecting asset-backed pension programs in the 38 OECD member countries. (Asset-backed pension programs invest participants' savings in assets—such as equities, bonds, and real estate—to fund retirement benefits.)

This year's report highlights the continued expansion of asset-backed pension programs as sources of capital investment and retirement income around the world. The report notes that pension assets in advanced economies as a percentage of gross domestic product (GDP) have nearly doubled in value over the last 20 years, with the average value reaching 55 percent of GDP and eight countries now having assets above 100 percent of GDP. Across the world, total pension assets are worth more than US$55 trillion and represent nearly one-fifth of global public equity market capitalization. In terms of coverage, more than half of the working-age individuals in most OECD countries participate in asset-backed pension programs. An increasing share of workers in developing economies also have access to defined contribution pension plans and other asset-backed arrangements.

After emphasizing the growing importance of asset-backed pension programs in financial and retirement systems, the report discusses several ways in which these programs can be improved, including:

- *Expanding access to asset-based pensions through multi-employer arrangements:* Multi-employer pension arrangements, which pool participants and assets from multiple employers, can expand the coverage of asset-backed pension programs to additional groups of workers. Multi-employer pension arrangements established and governed through collective bargaining agreements at the industry, sectoral, or national level are often better suited for expanding coverage to employees of smaller firms, while those established and governed by financial institutions are usually better suited for expanding coverage to self-employed persons and employees not covered by collective bargaining agreements. Given the advantages of these different models, countries can maximize multi-employer pension coverage by allowing a variety of arrangements.

- *Reviewing financial incentives regularly for necessary updates:* Although most OECD countries have increased financial incentives for saving in asset-backed pension programs since 2015, many have not established processes for regularly reviewing these incentives. As a result, incentive structures in many countries have become overly complex and some parameters (such as contribution maximums and government subsidies) have not been adjusted to reflect inflation or wage growth. Updating financial incentives is critical for making asset-backed pension programs attractive for savers over the long term.
- *Reassessing pension investment frameworks and default options:* The share of defined contribution pension portfolios invested in equities has risen significantly over the last 20 years, with equity exposure exceeding 40 percent in 13 OECD countries in 2022. Considering this trend, the report analyzes the historical returns produced by different investment strategies and finds that portfolios that invest in equities outperform those that only invest in fixed-income securities between 87 and 91 percent of the time. Based on this finding, the report encourages governments to reassess the investment frameworks and default options for their asset-backed pension programs to ensure that they are not too conservative.
- *Designing payout options to meet different financial needs:* When governments design the retirement payment options for asset-backed pension programs, the report recommends that they consider how retirees will cover different financial needs. While guaranteed lifetime incomes are usually best for meeting essential spending needs, some flexibility can be helpful in certain cases, such as unfavorable market conditions at retirement. Financial education, digital tools, and behavioral insights can be used to help retirees choose the optimal payment options based on their circumstances.
- *Including home equity release products with appropriate safeguards:* Home equity release products—which include reverse mortgages, home reversions, and sell-to-rent plans—can bolster the standard of living and wellbeing of many retired homeowners. However, given the complexity of these products, strong consumer protections and risk management practices are needed to ensure that they are fair, adequate, and sustainable.
- *Designing user-friendly pension dashboards:* Seventeen OECD countries operate online pension dashboards that allow individuals to access information about their asset-backed pensions and other retirement resources in one location. These dashboards can help individuals improve their retirement planning if they include all sources of retirement income, provide meaningful estimates of future retirement income, offer tools for exploring different retirement scenarios, and present information in a user-friendly manner.

Sources: *OECD Pensions Outlook 2024*, Organisation for Economic Co-operation and Development, December 2024.

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